

## 2007 Implementation Option Analysis: RDS

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<b>Option Description</b>	<p>CalPERS would apply for the RDS for members not enrolled in Kaiser Senior Advantage and continue to provide the Kaiser MA-PD plan for Kaiser Senior Advantage members. (The same options selected in 2006.) CalPERS would re-apply for the RDS by the deadline of September 30, 2006, for all RDS eligible CalPERS members.</p> <p>Centers for Medicare and Medicaid Services (CMS) bases the funding available under the RDS program on 28 percent of drug costs between specified dollar thresholds (currently \$250 and \$5000 per individual) per calendar year, using claims experience for RDS-eligible members.</p>
<b>Disbursement Flexibility</b>	<p>Although the Board chose the subsidy option for 2006, it deferred its decision on distribution of the RDS for 2006 pending the Attorney General's opinion. CalPERS will place monies collected for 2006 in an escrow-type account until the Board decides how to distribute the funds. If the Board chooses to continue the subsidy for 2007, CalPERS will continue to deposit RDS funds into this escrow-type account, pending the Attorney General's opinion and Board action based on that opinion.</p>
<b>Administration Ease</b>	<p>CalPERS staff designed and implemented an RDS system for 2006 using existing resources, in anticipation of increased staffing beginning July 1, 2006. Staff worked with CMS and successfully completed each implementation milestone. We do, however, have some concerns with the CMS administration of the program. CMS is still in the process of building its automated systems creating extreme delays in responding to our eligibility files. The interim monthly payment system is also behind schedule. We are in the process of submitting a one-time only manual update, scheduled for April, and CMS does not expect to accept any electronic submissions until after July 2006.</p>
<b>Member Impact</b>	<p>Members would not enroll in a PDP, and instead would retain their existing prescription drug coverage. Members would continue to receive their prescription drugs through their health plan without disruption.</p>

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## 2007 Implementation Option Analysis: RDS, Continued

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### Net Available Federal Funding

The following table presents an estimated value of the RDS subsidy option in 2006, as presented to the Health Benefits Committee in 2005. CalPERS administrative costs include personnel and system requirements. The reconciliation process includes over or underpayments determined by CMS.

CMS Reimbursement	\$54.0 million
Administrative Costs	\$1.4 million
Reconciliation with CMS	Unknown
<b>Net Available Funding</b>	<b>\$52.6 million</b>

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### Summary Findings

Continuing with the RDS option appears to provide the same aggregate reimbursement amount as the health plan based PDP option, using our 2006 estimate. The PDP option for our self-funded plans, however, may require additional costs due to CMS requirements. Members would continue to receive their prescription drugs without disruption. If the Board chooses to continue the subsidy for 2007, CalPERS will continue to use an escrow-type account, pending the Attorney General's opinion and Board action based on that opinion.

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## 2007 Implementation Option Analysis: Health Plan Based PDP

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**Option Description**

CalPERS would provide a health plan based Prescription Drug Plan (PDP) for members not enrolled in Kaiser Senior Advantage and continue to provide the Kaiser MA-PD plan for Kaiser Senior Advantage members. CalPERS health plans would contract with the Centers for Medicare and Medicaid Services (CMS) to be PDPs. CalPERS would contract with Blue Shield, Western Health Advantage, and Medco (as the third party administrator for PERSCare and PERS Choice) to offer a health plan based PDP.

In 2006, CMS calculated the reimbursement to PDPs using a national average of PDP bids for retiree prescription drug coverage, which CMS risk-adjusted based on the demographics of each group-enrolled client. Based on the timing last year, staff expects that CMS will publish the national average premium bid in September 2006.

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**Disbursement Flexibility**

If the Board chooses the health plan based PDP option, federal funds go directly to the health plans and Medco, as the pharmacy benefits manager (PBM) for our self-funded plans. Using estimates of the federal payment received by the plans and Medco, staff could negotiate premium reductions or pharmacy co-payment reductions during annual rate renewal with our HMOs. For our self-funded plans, we could implement premium or co-payment reductions. The health plans could reconcile any adjustments the following year based on actual payments from CMS. Staff could negotiate language within its health plan contracts to provide that CalPERS receives credit for Medicare Part D funds received by the plans on behalf of our members.

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**Administration Ease**

This option is consistent with how we manage other benefit design changes.

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**Member Impact**

CalPERS would enroll its members in a plan based PDP. Members would retain their existing prescription drug coverage and continue to receive their prescription drugs through their health plan. According to Medco, there may be some formulary disruption for our self-funded plans. We are working to quantify this impact.

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## 2007 Implementation Option Analysis: Health Plan Based PDP, Continued

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### Net Available Federal Funding Amount

The following table presents the estimated value of the health plan based PDP option if it had been in place in 2006. We based the CMS reimbursement on the 2006 CMS formula, in consultation with Medco and Blue Shield. We estimated administrative costs based on input from Medco and Blue Shield.

To conform to CMS requirements and keep our current pharmacy benefit design, Medco informed us that we may experience cost increases with this option for our PPO plans. Examples include: filling in the coverage gaps between the CMS formulary and our current design; changes to our rebate structure; the expansion of our pharmacy network to meet CMS requirements which may reduce savings we achieve through our current narrower pharmacy network; and, requirements to provide 90 day supplies at retail pharmacies if we offer a 90 day supply through mail service. We will work with Medco to help quantify the impact.

CMS Reimbursement	\$62.4 million
Administrative Costs	\$9.8 million
Additional costs (PPO plans)	Unknown
<b>Net Available Funding</b>	<b>\$52.6 million</b>

### Summary Findings

Choosing the health plan based PDP option allows the Board to reduce premiums or buy-down pharmacy co-payments. Although the aggregate reimbursement under the PDP option appears to be the same as the RDS option based on our 2006 estimate, we continue to refine our calculations. The PDP option for our self-funded plans may require additional costs due to CMS requirements. We are working with Medco to quantify those costs. According to Medco, there may also be some formulary disruption for our self-funded plans. We are working with Medco to quantify the impact.

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